

# Alaska Telephone Association

4341 B Street, Suite 304

Anchorage, AK 99503

(907)563-4000

FAX (907)563-3778

Duane C. Durand  
President

James Rowe  
Executive Director

ORIGINAL

April 12, 1996

William F. Caton  
Acting Secretary  
Federal Communications Commission  
1919 M Street, N.W.  
Room 222  
Washington, D.C. 20554

APR 12 1996

RE: CC Docket No. 96-45, Federal State Joint Board on Universal Service

Dear Mr. Caton:

The Commission's decisions regarding the issues in this docket on Universal Service will determine the accessibility and vitality of telecommunications service in Alaska at the turn of the century. We hope that our state and its people will benefit from the new era of competition and be a part of the information superhighway.

The challenges and disadvantages inherent in our vast expanse, severe climatic conditions and rugged terrain only accentuate our need for the best communications service that modern technology can offer. Our response in this docket, as well as our comments raised in CC Docket 80-286, address issues key to a state that epitomizes the need for universal service support.

Thank you for your attention.

Very Truly Yours,



James Rowe

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BEFORE THE  
FEDERAL COMMUNICATIONS COMMISSION  
WASHINGTON, D.C. 20554

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In the Matter of                    )  
  )     CC Docket No. 96-45  
Federal-State Joint Board        )  
on Universal Service             )

Comments of the Alaska Telephone Association

EXECUTIVE SUMMARY

ATA has limited its comments primarily to Sections III and VI of the NPRM. ATA is in concurrence with OPASTCO, NTCA, NECA, and WRTA in their comments on the remaining issues and with respect to rural local exchange company interests.

**SUMMARY POINT**

- ▶ Alaska epitomizes the challenge of providing universal service to rural, insular and high-cost areas; and it should be used as the bell-wether for universal service rulemaking.

**SERVICES TO SUPPORT**

- ▶ USF should support voice grade access, touch tone, single party, emergency service access, directory listing, equal access and ISDN functionality as well as new functionalities as they achieve market acceptance.

## **ELIGIBLE CARRIER DESIGNATION**

- ▶ Support should be directed to the carriers that make the investment. Resellers should be eligible for support only for the provision, maintenance and upgrade of facilities.

## **EXISTING USF AND DEM PROGRAMS**

- ▶ ATA continues to believe that some recognition of the high cost for switching in small rural areas must continue (see Attachment 3). Elimination of DEM weighting will adversely impact Alaskan LECs (see Attachment 2).

## **HOW TO CALCULATE THE SUBSIDY**

- ▶ ATA recommends use of fully distributed costs as the only way to ensure sufficient USF support.

## **BENCHMARK COSTING MODEL**

- ▶ ATA opposes this model or any costing model. Alaska does not fit in a statistical model. Due to its extremes of costs and the fact of its small number of access lines Alaska falls off the curve and cannot impact the "average" statistical model.

## **OTHER UNIVERSAL SERVICE SUPPORT MECHANISMS**

- ▶ Carrier Common Line (CCL) should not be addressed in this docket; but should be taken up in an access reform proceeding. ATA opposes the elimination of CCL and believes there are alternatives which would overcome the traffic-sensitive objection. ATA also opposes moving

the CCL to the subscriber line charge; since that would make telephone service less affordable and violate the universal service support objective.

#### **UNFUNDED FEDERAL MANDATES AND JURISDICTIONAL NEUTRALITY**

- ▶ ATA recommends that no changes to high cost/universal service support be made that would shift the burden of costs to the states. Universal service cannot be provided in Alaska if the Commission shifts costs to the intrastate jurisdiction.

#### **STATE RESPONSIBILITY**

- ▶ The Commission must ensure that the states comply with all the provisions for eligibility and distribution mandated in the Act. Regulations must ensure that distribution of USF does not violate competitive neutrality by favoring new entrants.

#### **COMPETITIVE BIDDING FOR USF**

- ▶ Competitive bidding for Universal Service support funds violates the Act's intent.

#### **SCHOOLS, LIBRARIES AND HEALTH CARE**

- ▶ Advanced services for these institutions should be separately funded because the level of need is unknown. Co-mingling this support with other universal service support mechanisms violates the Act's requirement that support be predictable.

#### **ADMINISTRATION OF THE SUPPORT MECHANISM**

- ▶ ATA supports the continuation of NECA as the administrator of the high-cost support fund.

**BEFORE THE  
FEDERAL COMMUNICATIONS COMMISSION  
WASHINGTON, D.C. 20554**

In the Matter of	)	
	)	CC Docket No. 96-45
Federal-State Joint Board	)	
on Universal Service	)	

**Alaska Telephone Association  
Response to NPRM Released March 8, 1996**

The Alaska Telephone Association (ATA), a trade association representing 22 local exchange companies in the State of Alaska, respectfully submits these comments in the above referenced proceeding to assist the Federal Communications Commission (FCC) in promulgating rules for Universal Service as required by the Telecommunications Act of 1996. ATA has been active in past discussions of universal service policy and has filed extensive comments in CC Docket 80-286<sup>1</sup>.

ATA has been working with other industry organizations such as the Organization for the Protection and Advancement of Small Telephone Companies (OPASTCO), the National Telephone Cooperative Association (NTCA), the National Exchange Carriers Association (NECA), and Western Rural Telephone Association (WRTA). We believe their interests and comments reflect many of the same issues and concerns important to the small rural local exchange companies in Alaska. Due to

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<sup>1</sup>CC Docket 80-286, In the Matter of Amendment of Part 36 of the Commission's Rules and Establishment of a Joint Board, Comments of the Alaska Telephone Association, October 9, 1995.

the limited resources and time allotted in this Notice of Proposed Rulemaking (NPRM), ATA has chosen to provide comments directed primarily at Sections III and VI of the NPRM. This focus is in no way intended to infer a lack of importance of the questions raised in the other sections.

Although Alaska contains a very small portion of the nation's access lines, it epitomizes the challenge of providing universal service to rural, insular, and high-cost areas. Alaska's huge geographic size<sup>2</sup>, climate, terrain, and relative lack of development make it an important bell-wether for universal service rule-making.

#### What Services to Support (paragraph 15)

The Universal Service Fund should support voice grade access, touch-tone dialing, single party service, access to emergency services, directory listing, and maintenance of current FCC equal access requirements. New functionalities should receive Universal Service Fund support when they have achieved market acceptance in areas where market forces have been demonstrated to function effectively or when the public interest is served in ensuring the widest possible availability and use of a functionality or feature.

In addition, ATA believes that any definition of Universal Service must include provisioning of adequate bandwidth for data and imaging in communications. Telecommunications subscribers, therefore, need universal access to technological platforms that, at a minimum, specify an integrated services digital network (ISDN) "functionality" level. It is obvious that data will drive future networks. To accept a lesser standard would create a two-tiered telecommunications society of

"haves" and "have nots." Universal Service standards must ensure that we do not establish such disparity.

#### Eligible Carrier Designation

Only carriers with facilities should receive support. Section 254(e) of this Act states "A carrier that receives such support shall use that support only for the provision, maintenance, and upgrading of facilities and services for which the support is intended." Resellers should be eligible for support only for "the provision, maintenance, and upgrading of facilities and services...."

Allowing non facilities-based carriers access to Universal Service Fund support creates an unfair advantage for the new entrant. New entrants will target high-volume, low cost users. Rate averaging creates an opportunity for a competitor to target the customers who cost less than the average to serve. If incumbent rural local exchange carriers (LECs) are forced to resell high cost services at average rates to new entrants, resellers will build facilities in lower-cost areas and resell at below cost in high-cost areas. This will create a potentially confiscatory situation for the incumbent LEC. Receiving Universal Service support for resold services conflicts with the Act's provisions for competitive neutrality.

#### Existing USF and DEM Programs (paragraph 30)

Traditionally, Universal Service Fund (USF) support has been based on local loop cost, however, the FCC also recognized that high switching costs in rural areas must be supported<sup>3</sup>. The elimination of the DEM weighting program would adversely impact a majority of ATA's member

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<sup>3</sup>CC Docist 80-286, In the Matter of Amendment of Part 36 of the Commission's Rules and Establishment of a Joint Board, Comments of the Alaska Telephone Association; (Attachment 3).

companies<sup>4</sup>. If the Commission decides that the dial equipment minutes (DEM) weighting program should be replaced, ATA recommends that a transitional period of ten years would be necessary to sufficiently lessen the impact on smaller telephone companies who have higher local switching costs than larger LECs.

#### How to Calculate the Subsidy (paragraph 27) --

ATA recommends that USF support continue to be determined using existing LEC actual costs and LEC study areas. The fund must provide each LEC with a recovery of its actual fully distributed cost including a reasonable profit. Without sufficient recovery, LECs will be forced to avoid investment in high cost areas. ATA would argue that any mechanism that provides the LECs with less than fully distributed cost would violate the intent of the Act. The Act requires that USF support be sufficient to maintain and promote universal service<sup>5</sup>.

#### Benchmark Costing Model

ATA opposes the Benchmark Costing Model (BCM). It is unlikely that any costing model can accommodate the variety of conditions nationwide and still provide the Alaskan companies sufficient support as required by the Act. Actual cost must be used to determine support levels in rural Alaska. Principle V of the Act requires that there be specific, predictable, and sufficient support mechanisms to preserve and advance universal service. Proxy models are inherently inaccurate since no proxy is directly linked to actual cost. Model builders cannot help but reject

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<sup>4</sup>See Attachment 2.

<sup>5</sup>Telecommunications Act of 1996, Section 254(b)(5).



certain variables because the information is difficult, costly or impossible to obtain; witness the exclusion of Alaska and the insular areas from the Bench Mark Costing model (BCM).

Alaska does not fit in any national statistical model. The extreme high costs experienced in Alaska literally fall off the high end of a bell curve. Even if it had been included in the BCM, Alaska would have made no statistical impact due to its small number of access lines. Using a statistical model like the BCM ignores the needs and interests of an entire state because it is statistically aberrant and insignificant.

The comments filed in CC Docket 80-286, in reply to the use of proxies and bench cost models, clearly demonstrate that the methodologies have many flaws and problems. A primary objective of the Universal Service provisions of the Act is to assure access to telecommunications services in rural, high cost and insular areas at affordable rates. The use of existing LEC costs and study areas is necessary to meet this objective.

#### Other Universal Service Support Mechanisms

Carrier Common Line (CCL) should not be addressed in this docket. Although ATA acknowledges that Universal Service and access charges cannot be addressed in forums that are mutually exclusive, ATA feels that CCL is best addressed in access charge reform.

The CCL is not an implicit subsidy mechanism. The local loop provides connectivity between the end-user and the central office. Interexchange carriers are dependent on the local loop to provide service to end users. Equity dictates that some contribution should be made by the interexchange carrier (IXC) for the use of that facility.

ATA opposes the elimination of CCL access charges. The CCL should not be eliminated simply because the current recovery mechanism is usage sensitive. Alternate methods, such as a non usage-sensitive bulk bill, could be adopted for recovering CCL costs.

The objective of universal service support is to make telecommunications service affordable in rural, insular and high cost areas. Moving CCL cost recovery to Subscriber Line Charges (SLC), as suggested in the NPRM, will adversely affect penetration levels. Historically, low local rates have been social policy and those policy considerations were not changed by the 1996 Telecommunications Act. Quality Services is the number one Goal and Principle of the 1996 Act and emphasizes just, reasonable and affordable rates. Increasing the SLC, which is a fixed charge regardless of any usage, will force marginal customers off the local network.

#### Prevention of Unfunded Federal Mandates and Jurisdictional Neutrality

The NPRM (paragraph 27) seeks comment to "Identify methods for determining the level of support required to assure that carriers are financially able to provide the services identified for inclusion among those to be supported by universal service funds in rural, insular, and high-cost areas." In addition to other recommendations contained herein, ATA recommends that the Commission not make any changes to its high-cost and universal service programs that would shift costs and obligations onto the states in any way that undermines the goals of universal service. This is particularly important in Alaska due to geography, environmental considerations, and numerous locations where small numbers of people live in isolated areas. Carriers will not be able to provide universal service in Alaska if the Commission shifts what are now costs funded from interstate revenue sources onto state ratepayers.

## State Responsibility

The NPRM seeks comment on whether the Commission should "ensure that the means of distributing universal service support should be competitively neutral" (paragraph 8). States have been assigned responsibility for determining eligibility for USF, including whether or not it is in the public interest to designate more than one eligible carrier in any given study area. The Commission must first decide whether it should monitor the states' compliance with the Act regarding eligibility and distribution of USF. If it determines that it must do so, it must also ensure that the states comply with other provisions for eligibility and distribution.

Congress recognized that there will be a limited amount of universal service funding and, therefore, granted the states the right and obligation to designate eligible carriers. This was necessary to ensure that universal service funding is used prudently and not wasted on unnecessary and uneconomic duplication of facilities and services. Therefore no need exists to ensure that the distribution of universal service support be competitively neutral unless a state designates more than one eligible carrier in a service area.

If multiple carriers are designated, the Commission should ensure that the states have complied with Congress's intent to limit the funding requirements through specific findings that it is in the public interest each time a state allows more than one eligible carrier per service area. Its regulations must also ensure that the distribution of universal service funds does not violate competitive neutrality by allowing new entrants to target high-margin customers while forcing incumbents to provide (or resell) services for less revenue than it costs to provide service in its high-cost areas.

### Competitive Bidding

ATA opposes any competitive bidding process for Universal Service support. The Act clearly provides Universal Service support for those carriers designated eligible telecommunications carriers<sup>6</sup>

### Schools, Libraries, and Health Care Providers

Advanced services for schools, libraries, and health care providers should be covered by a separate fund and all additional or advanced services mandated by the Act or the FCC (such as number portability) should be supported by the separate fund. The costs to provide these additional services could well dwarf the existing USF and long term support. In order to allow the Commission to evaluate the cost of these services and to make a public interest determination, the cost of providing these services should be covered by a separate fund.

Since support for schools, libraries, and health care providers is new, the size of the fund required for these services is unknown. This increases the probability that funding will be inadequate. This will, in turn, jeopardize universal service in rural, insular, and high-cost areas. The Act requires that support for rural, insular, and high-cost areas be "predictable," and ATA believes that co-mingling these funds will violate this provision of the Act.

### Administration of the Support Mechanism

ATA supports the continuation of the National Exchange Carriers Association (NECA) as the administrator of the high-cost support fund. NECA already meets the standards with a staff

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<sup>6</sup>Telecommunications Act of 1996, Section 102(e)(1).

experienced in the cost characteristics, the structure and the accounting principles of the telecommunications industry. As the administrator of the current Universal Service fund, NECA is the only entity that will be able to quickly, efficiently and successfully carry out the administrative duties necessary to achieve the goals of the Act. Telecommunications customers in high-cost areas would be disadvantaged if another administrator had to garner the experience already inherent in NECA.

### Conclusion

Nowhere more than Alaska will the ramifications of the Commission's rulemaking on Universal Service be felt. Alaska presents extreme and expensive challenges to the deployment of telecommunications service. Those very challenges present the opportunity for Alaska to benefit, even more than the lower 48, from access to a modern telecommunications network.

- ▶ ATA supports the definition of Universal Service as stated herein. New services must be evaluated and added to the list of core services when they have achieved market acceptance or when demanded by the public interest.
- ▶ Universal Service support must be allocated to ensure the continuation of facilities-based carriers.
- ▶ DEM weighting is critical to rural companies. High switching costs must be included in Universal Service support.
- ▶ ATA opposes a BCM. Specific and precise support must be provided in the smallest and most sensitive markets.
- ▶ Carrier Common Line should be addressed in access reform. Shifting CCL cost recovery to Subscriber Line Charge adversely affects penetration levels.

- ▶ ATA recommends that no changes be made to high-cost and Universal Service support programs that shift costs onto the states and undermine Universal Service goals.
- ▶ Regulations must ensure that distribution of USF does not violate competitive neutrality by favoring new entrants.
- ▶ ATA opposes a policy that permits competitive bidding for Universal Service support.
- ▶ ATA believes that Universal Service funding for schools, libraries and health care providers should be provided through a separate fund.
- ▶ NECA should continue to administer the high-cost fund.

Respectfully submitted this 12th day of April 1996.



James Rowe

Executive Director

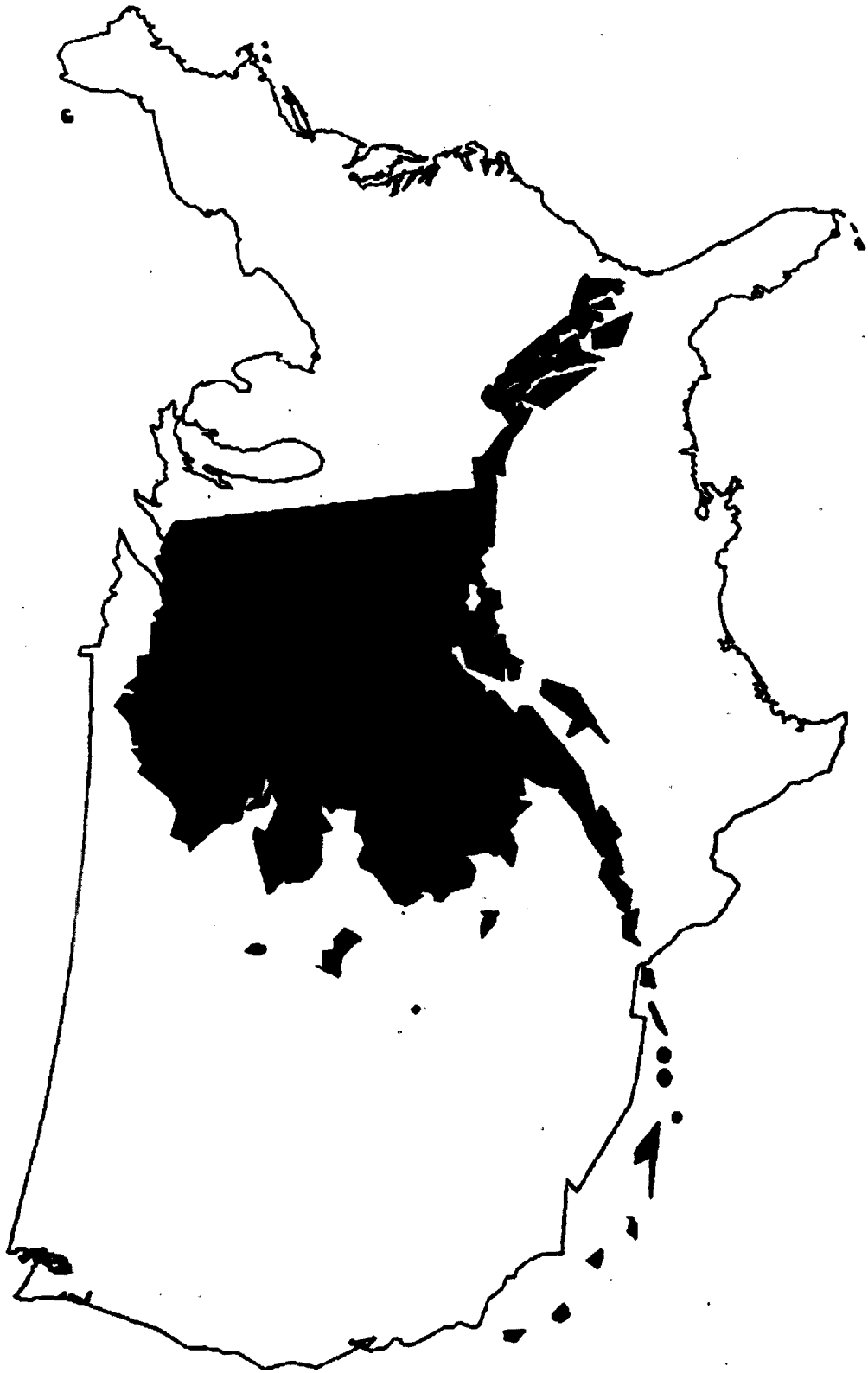
Alaska Telephone Association

4341 B Street, Suite 304

Anchorage, AK 99503

907/563-4000 FAX 907/562-3776

# Alaska Telephone Association



# ALASKA TELEPHONE ASSOCIATION

## INTERSTATE REVENUE REQUIREMENT ELIMINATION OF DEM WEIGHTING

	<u>LOOPS</u>	<u>Current Rules CAT3</u>	<u>Proposed NPRM Rules UNWTG DEM</u>	<u>Loss of DEM WTG</u>	<u>Impact DEM WTG Month</u>
Arctic Slope	1,817	1,918,231	1,144,844	773,387	35.46
Bristol Bay	1,584	716,861	465,342	251,519	13.23
Bush-Tell	718	810,839	557,225	253,614	29.43
Copper Valley	4,689	2,239,980	1,471,383	768,597	13.66
Cordova	1,608	786,712	476,560	310,512	16.09
Fairbanks	29,317	5,942,500	4,896,081	1,046,419	2.97
Interior	3,775	2,823,964	1,951,413	872,551	19.26
KPU	9,315	2,573,335	1,726,028	847,307	7.58
Matanuska	33,728	12,223,973	11,188,515	1,035,458	2.56
Mukluk	920	759,703	574,122	185,581	16.80
Nushagak	1,783	505,486	376,732	128,754	6.01
OTZ	2,482	910,428	527,196	383,232	12.86
Summit	76	349,243	323,187	26,056	28.57
United	3,934	4,874,929	4,145,193	729,736	15.45
Yukon	396	548,652	289,807	258,845	54.47
<b>TOTAL</b>	<b>96,142</b>	<b>37,984,836</b>	<b>30,113,628</b>	<b>7,871,568</b>	<b>6.82</b>

	<u>LOOPS</u>	<u>Current Rules CAT3</u>	<u>Proposed NPRM Rules DEM 1.7</u>	<u>Loss of DEM WTG</u>	<u>Impact DEM WTG Month</u>
Matanuska		12,223,973	11,913,409	310,564	.77
<b>TOTAL</b>	<b>96,142</b>	<b>37,984,836</b>	<b>30,838,522</b>	<b>7,146,674</b>	<b>6.19</b>



Analysis of Switching data using Data Submitted to the FCC by NECA in September 1994  
 Supplemented with DEM Data from FCC Monitoring Report (1993 data)  
 (Sorted by study area size)

Study Area #	Study Area Name	Min. Per Loop	Gross Sw. Investment Per Loop 0	Gross Sw. Investment Per Thousand Minutes	Switch Rev. Req. Per Loop	Switch Rev. Req. Per Thousand Minutes
<b>Summary</b>						
	Study Areas Under 500 Subscriber loops	13,133	1,104.14	88.84	430.78	26
	Study Areas from 500 to 1,000 Subscribers	14,078	785.49	63.85	277.84	16
	Study Areas from 1,000 to 2,000 Subscribers	12,816	880.29	51.12	222.08	17
	Study Areas from 2,000 to 3,000 Subscribers	13,828	886.08	43.45	186.82	13
	Study Areas from 3,000 to 10,000 Subscribers	14,379	628.84	38.85	188.47	11
	Study Areas from 10,000 to 20,000 Subscribers	15,381	636.74	34.53	188.08	10
	Study Areas from 20,000 to 50,000 Subscribers	16,969	476.90	28.12	148.38	8
	Study Areas from 50,000 to 100,000 Subscribers	18,087	482.42	29.88	152.18	8
	Study Areas from 100,000 to 200,000 Subscribers	18,283	800.80	30.74	158.17	8
	Study Areas from 200,000 to 500,000 Subscribers	19,538	485.37	27.50	135.84	6
	Study Areas from 500,000 to 1,000,000 Subscribers	17,882	440.25	24.90	132.83	7
	Study Areas over 1,000,000 Subscribers	19,189	387.93	19.16	118.47	6
	<b>Total</b>	<b>18,572</b>	<b>388.74</b>	<b>20.87</b>	<b>122.21</b>	<b>6</b>